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November 30, 1954

**\*OMB Waiver Letter In ERU File\***

MEMORANDUM FOR THE PRESIDENT

Subject: Report on the current budgetary situation and outlook

I am attaching a report on the current budgetary situation and the budgetary outlook for the fiscal years 1956 and 1957.

This report is in accordance with your instructions of July 20, 1953, in which you directed the Treasury Department and the Bureau of the Budget to prepare projections of expenditures and revenues semiannually and to make an analysis of their fiscal implications. The projections contained herein are consistent with those I discussed with you recently in relation to the Government's fiscal policy for the fiscal year 1956.

This report in no respect sets the budget figures for the fiscal year 1956. The 1956 Budget recommendations and estimates will be made through the usual procedures and methods provided for overall budget decisions by the President.

The purpose of this report is to provide a backdrop for policy making. It outlines the magnitude of the budgetary issues we are currently facing in the formulation of the Budget for the fiscal year 1956. Its immediate use would be to provide you with a basis for giving to the National Security Council and its Planning Board general policy guidance as to your 1956 and 1957 program objectives.

With a few exceptions, the expenditure projections in this report begin with the totals which have been submitted to the Bureau of the Budget by the agencies as their 1956 requests under existing legislation. (Where such submissions had not been made in time for inclusion, the Bureau of the Budget has made an estimate of the probable submissions). The Department of Defense (military) estimate of \$34.5 billion is a preliminary estimate and compares with \$37.4 billion which was the original proposal of the services to the Office of the Secretary of Defense.

These projections are based upon a general policy of building up our strength in a continuing tense world situation. They do not assume the breaking out of large-scale war or the imminence of such an eventuality during this period. Thus, the 1957 expenditure projections under existing legislation are the same as the levels estimated for 1956.

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As the projections indicate, the major budget issues which press upon us for decision center around the new legislative proposals of the agencies and the "add-ons" which are under current discussion. The acceptance of all these proposals would sharply reverse in 1956, and even more sharply in subsequent years, the downward trend in expenditures which has marked this administration's real progress in obtaining control of the Budget.

Table I indicates that without any new legislative program or other proposals now under consideration and if all taxes were retained at present rates, and if a moderate reduction in agency expenditure estimates (of about five percent for other than the Department of Defense) were made, we would be faced with estimated deficits of \$2.2 billion in 1956 and \$.7 billion in 1957.

Table II shows the effect on the above deficits if the new legislative program and other proposals under consideration were added to the Budget. The costs of these proposals are preliminary estimates of the minimum expenditures which would result from their adoption. They total \$4.6 billion in 1956 and \$6.8 billion in 1957. In addition, if the figures in the proposals of the armed services were adopted, there would be a further increase in the deficit of \$2.9 billion in 1956 and \$.8 billion in 1957. Assuming that corporation and excise taxes can be extended at present rates and no tax reductions enacted, the indicated deficit would be \$9.7 billion in 1956 and \$13.3 billion in 1957. In later years, as shown in the supporting table attached, we would have to face up to an additional \$10 billion of expenditures per annum as a result of these "add-on" programs as now outlined.

#### Receipts

In the case of revenues, a continued high level of prosperity and further growth in the economy have been assumed. We have also assumed that the present statutory reductions in both excise and corporate tax rates, scheduled to take effect on April 1, 1955, can be set aside by a new act of Congress extending present rates. The loss in revenues and corresponding increase in the estimated deficits, from a failure to secure extension of the rates would be as follows:

	(in millions)	
	1956	1957
Excise taxes . . . . .	\$1,200	\$1,100
Corporate taxes . . . . .	1,200	1,750
Total . . . . .	2,400	2,850

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The debt ceiling

It is estimated that at the end of the fiscal year 1955, the public debt will stand right at the debt ceiling of \$275 billion. The temporary increase of \$6 billion expires next June 30. Hence even with a balanced budget for 1956 the administration would again be faced with the necessity of seeking an extension of the temporary debt ceiling in order to meet seasonal borrowing needs. Any appreciable deficit in the 1956 Budget will force the administration to seek a permanent increase in the debt ceiling of \$275 billion as well.

Receipts from and payments to the public

The excess of cash receipts from the public in the trust funds might amount to approximately \$3 billion in each of the fiscal years 1956 and 1957. If we accept as the objective for the 1956 Budget the actual 1954 budgetary result of a \$3 billion deficit - which would represent an approximate balance of receipts from with payments to the public--the projection in Table I (line 5) indicates that it would be possible either to make some reductions in taxes or allow for "add-on" expenditure programs totaling just short of \$1 billion.

Conclusion

Our report of May 10, 1954, took justifiable credit for the real progress which had been made through teamwork in obtaining control of the Budget.

Table I now indicates that if tax rates are maintained at the present levels and if expenditures are confined to the present programs we would approach a balanced budget in 1957. These are two very big "ifs" and very difficult to overcome. On the expenditure side it means that new programs we adopt must be "in lieu of" rather than "in addition to" existing programs.

Adoption of all the new legislative proposals and other "add-ons" under consideration would certainly mean such a sharp change in our budgetary trends as to spell danger ahead.

/s/ Powland R. Hughes

Director

Attachments